

Fed survey finds easier business lending standards

AP Economics Writer

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WASHINGTON -- Banks have eased lending standards for small businesses for the first time in nearly four years, the Federal Reserve said Monday .

In its new survey of bank lending practices, the Fed found that the loosening of loan standards was occurring primarily at the country's largest domestic banks.

Banks had been reporting relaxed credit standards for big corporations. But the new survey marked the first indication that credit was beginning to ease for smaller companies.

That could be welcome news for small businesses. Many have complained since the recession hit that they were having more trouble borrowing money to keep operating.

The Fed said it was the first time it had found relaxed lending standards being imposed on small businesses since late 2006. The Fed defined small firms as those with annual sales of less than \$50 million.

"After three years of tightening credit conditions, this is the first real sign that banks are feeling more comfortable and are starting to ease lending standards," said Mark Zandi, chief economist at Moody's Analytics. "Credit conditions are still incredibly tight, but at least they are easing a bit."

Many economists said they did not look for a rapid improvement in credit conditions, given that the economy remains weak and banks remain nervous about making new loans.

"At least lenders aren't panicking any more," said David Wyss, chief economist at Standard & Poor's in New York. "This gradual improvement is important for the economy because small businesses tend to be big job creators."

The Fed's latest quarterly report on lending was based on responses received to a survey done in late July. It found that the most improvement came in loan areas where banks were facing competition to offer credit.

The survey found that the easing of standards was concentrated at large domestic banks. Most banks were still reporting lackluster demand for credit.

In addition to easier terms for business loans, many large banks also reported having eased standards on various types of consumer loans.

Some large banks reported that they had loosened standards for prime mortgage loans. The banks also reported an increased willingness to make consumer installment loans. A smaller proportion of banks reported that they had eased lending standards on both credit card and

other types of consumer loans.

The Fed held a conference on the problem of tight credit to small businesses last month. Federal Reserve Chairman Ben Bernanke noted a serious gap between large corporations who are building up cash and reporting strong earnings and the thousands of small businesses who are struggling to get credit.

Bernanke said banking regulators were applying pressure to get more credit flowing to small businesses, who hire more than half of American workers.

"Making credit accessible to sound small businesses is crucial to our economic recovery," Bernanke had said at the July 12 conference.